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BUREAUCRATIC TURMOIL THREATENS THE RUSSIAN FAR
EAST FISHERY

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Dear Peter,

There is an old Russian proverb, "A fish begins to rot at the head." Recent events in the Russian Far East fishery indicate that this proverb may be more timely now than ever. Bureaucratic turmoil in the Russian Republic's Ministry of Fisheries, combined with the economic chaos and political difficulties that beset Russia, poses a serious challenge to foreign investment in the Russian Far East.

The rot in the Ministry of Fisheries is an unforeseen consequence of the failed August, 1991 anti-reform coup in the Soviet Union. Flushed with success following the collapse of the Soviet system, the Yeltsin Administration reorganized most government ministries. The Ministry of Fisheries, one of the largest, most prestigious, and most successful branches of Soviet industry, was subsumed into the Ministry of Agriculture. While the reorganization brought the Russia administrative system closer to Western models, which generally fit fisheries into a department of agriculture or commerce, the new order displeased the Ministry of Fisheries. Officials there resented being suddenly made subordinates of the Ministry of Agriculture, with its record of

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disappointing production, chronic shortages, and inefficiency. Now lingering bitterness over the move is erupting into all-out bureaucratic war between the Ministry of Fisheries and the Ministry of Agriculture.

"Our local Department of Fisheries reacted very negatively to the reorganization of 1991", said one official from the Kamchatka Regional Soviet of People's Deputies during a recent interview. "They (the Ministry of Fisheries) had a great deal of autonomy under the old Soviet system. Now they have to fight with Moscow for everything." The official, an elected member of the Kamchatka Region Economic Development Board, was bemused by the fact that local economic activity became more dependent on Moscow following the collapse of the Soviet Union. Like most people on the Kamchatka peninsula, one of the Russian Far East's richest fishing regions, he had hoped for greater economic freedom in the new, 'democratic' Russia. The official is deeply concerned by the tussle between the two ministries.

At stake is control over yearly harvestable fishery resources totalling three million tons of commercially valuable fish, including pollock, sole, cod, halibut, salmon, king and snow crab. The fish are worth billions of dollars on the international market. Resources are one side of the coin; the flip side is assets. The entire Russian Far East fishing fleet, one of the largest in the world, including all the tenders, tankers, and tugs needed to support it, is now at the ultimate disposal of the Ministry of Agriculture. And, like all former industrial behemoths of the Soviet Union, the Ministry of Fisheries created everything needed to keep its workers sheltered, fed, clothed, and cared for from cradle to proletarian grave. The "company towns" in the Far East accumulated apartment complexes, resorts, stores, restaurants, and theatres along with the docks, warehouses, and shipyards built during forty years of intensive development. These, too, have been placed under jurisdiction of the Ministry of Agriculture. The winners of the ministerial war will bring home uncountable wealth in rubles, as well as the chance to make lucrative hard currency deals with European, Asian, and American partners. But, perhaps most importantly, the winners will survive in the rough-and-tumble fishing game of the Russian Far East.

The competition between the Ministry of

Agriculture and the Ministry of Fisheries generates venom on the order of American election-year politics. Both ministries routinely and publicly accuse each other of bribery, illegal financial dealings, and all kinds of bureaucratic chicanery and subterfuge. Foreigners sometimes get caught in the crossfire. In 1991, for example, a Seattle-based consortium, Performance Investment Group, bought the rights to harvest three hundred and thirty thousand metric tons of pollock annually for ten years from Russian Far East waters. In return for the pollock, the American businessmen were to build a potato-chip factory on the Kamchatka peninsula. According to Russian sources and the Russian media, the deal was mostly concluded between Performance Investment Group and Moscow bureaucrats; local officials were not consulted, and there was no assessment of the possible effects that removing such a huge amount of pollock from the fishery would have on either the environment, or the fishing communities in the Far East.

The prospective deal brought down a storm of criticism in the Russian Far East. Angry politicians, fishermen, and trade-union representatives attacked the Moscow bureaucrats and Performance Investment Group in the press, and appealed to the United States and Russian governments to halt the venture. Performance Investment Group pulled out of the deal, but in the Ministry of Fisheries, anger at Moscow's high-handedness remains. "They (the Ministry of Agriculture) went completely over our heads", said Michael Dimentev, a highly-placed executive in the Kamchatka Regional Administration Fishery Department. "We weren't consulted. There was no consideration for the environment."

The conflict between the Ministry of Fisheries and the Ministry of Agriculture heated up again in June this year, when the Russian government passed a resolution ordering the Ministry of Fisheries to move into the Ministry of Agriculture headquarters in Moscow. In an article titled, "The Violence Continues", in the fishing trade journal 'Soviet Fisherman', the Assistant Director of the Ministry of Fisheries, V.M. Susno, commented, "This is the last straw...we can't do anything but take legal action (to separate from the Ministry of Agriculture)." The article levels accusations of bribe-taking and corruption at both the Moscow city and Russian federal government. "And what should people who don't have a million dollars for

bribes do? The answer is simple: get out, citizens, of the offices you now occupy. If you don't want to get out nicely, we'll turn off your lights, and after that, we'll turn off your telephone and your water. We'll line up a brigade of millionaires to take your place."

Dimentev noted that the Ministry of Fisheries has taken action to become independent from the Ministry of Agriculture, and that he expects the Ministry of Fisheries to accomplish this sometime "in the near future." Dimentev hopes to replace control from Moscow with a regional fisheries management council for the Russian Far East. "We are cooperating with Ministry of Fisheries representatives from Vladivostok, Sakhalin Island, and around the Sea of Okhotsk", he said. "The goal is to coordinate fishery resource use in the Russian Far East."

American fishing company representatives aren't so sure this will work. "People (in the Russian Far East) have been talking about getting free of Moscow for five years now", said one Seattle fishing company representative with extensive experience in the Russian Far East. "It's just not going to happen unless Moscow wants it to. They can talk all they want, but tanks will roll before they get that kind of autonomy."

Prospects for hard-currency earnings may, in the long run, be the ultimate stimulus for stabilizing Russia as it seeks to enter the worldwide community of trading nations. Politicians on the Kamchatka peninsula are aware of the difficulties they are having attracting foreign investment, and of the profits to be made if they succeed in their efforts. As a result, they are seeking long-term investment (mainly construction of shore-based processing plants, refrigerated warehouses, and transportation infrastructure), while concurrently pushing for legislature to regulate business in the Russian Far East. There are signs that this strategy may be successful. In June, 1992, the Japanese company Honye-godo Suisan opened a salmon-processing plant with Russian partners. The new joint-venture "Kamchatka-Pilenga-godo" links Japanese technical know-how with inexpensive Russian labor to produce topnotch salmon products for export. Their factory is the first structure on Kamchatka built by foreigners; five more are planned. Chairman of the Kamchatka Region Soviet of People's Deputies Peter G. Premyak commented, "We plan to set up an entire series of salmon

plants and refrigerator warehouses with Suisan. This is the kind of investment we are seeking. Selling our resources for two or three times less than the world market rate is a losing proposition. What we ultimately want to do is sell our own high-quality products, from our own factories, at a price competitive on the world market."

Unfortunately, the success story of Kamchatka-Pilenga-godo is one of the few bright spots in the Russian Far East. Generally, foreign investment has been slow in coming. "Foreigners have so far been slow to invest in Kamchatka", said Premyak, "Not one joint venture has made a real investment in Kamchatka's economy." He continued, "We need to pass concrete legislation to protect foreign investments in Kamchatka. Businessmen need to feel safe here. I have been working very hard with the Russian Parliament to get some laws into place that will make conducting business easier and more certain here."

Establishing the necessary laws depends on highly uncertain legal and cultural factors. Legislators I spoke with complained about the lack of third-party arbitration over disputes, and a lack of precedent on which judges could base their rulings. The law, a sacred institution in the regulation-obsessed West, long served in the Soviet Union as a lackey for the Communist Party, and commands little real respect either among politicians or their constituents. There are at present about thirty five joint-ventures operating in Kamchatka; the maximum investment is only forty million dollars. Most ventures are waiting for the legal and economic picture to clarify before beginning operations in earnest.

An ironclad precondition for economic stabilization in Russia is making the ruble a convertible currency. Chairman Premyak readily accedes this point. "We need a convertible ruble so we can conduct trade on a ruble basis", he said, "It is absurd not to be able to do business in your own country with your own country's currency." In August, Premyak will get his wish, when the Yeltsin Administration plans to make the ruble fully convertible on foreign markets, which will enable foreign businessmen to repatriate profits earned in Russia.

Regulation of resource use is yet another serious problem in the Russian Far East. The Russian Coast

Guard has neither the available manpower, ships, helicopters, or communications to coordinate and enforce fishing rules in Russian territorial waters. Pirate fishing by foreign and domestic vessels is on the rise, and the local governments are hard-pressed to stop it. Foreign vessels harvest over 1500 tons of pollock daily from the "Peanut Hole", an open fishing zone in the Sea of Okhotsk. Despite the serious ecological damage caused by the unregulated fishery, some foreign ventures receive technical support and fuel from Russian partners, leading local fishermen to complain once again about Moscow's interference in their livelihood.

While troubles with Moscow, legal chaos, and economic hardship threaten the Ministry of Fisheries from above, two major economic trends erode it from below. The first trend, privatization, allows individuals and private corporations to purchase or acquire the means of production from the state, and is intended to encourage private ownership and the formation of small businesses or enterprises. On the face of it, this is an important and progressive economic strategy with the potential to liberate the small businessman from government restriction. However, privatization's real results are fragmentation and confusion. For example, two years ago there were eight salmon fishing enterprises on the Kamchatka peninsula; now there are over forty, and the number is growing. Regulating these new enterprises is something the government apparently did not plan. Said one administrator in the Kamchatka Regional Fisheries Department, "The new companies are anything from large collective farms to three guys and a boat. We also have traditional fisheries for the indigenous Koryaks and Kamchidals (native peoples similar to the Aluets), but often these have only one or two 'natives', and the rest are white. It's very easy to bribe your way in. There is no way to control any of these ventures." The administrator noted local corruption, including bribe-taking and records tampering, as chronic problems in the new, 'privatized' salmon fishery.

The second major economic trend in modern Russia is 'razgosudarstvovaniye', literally 'degovernmentalization'. This clumsy word refers to breaking up government monopolies into share holding companies. Workers and managers are awarded shares of a given monopoly, which they may then use to own part of the old enterprise, set up

a new company, or sell at their discretion. In theory, it all sounds good and Western, but the Russian Far East is far, far away from the West. 'Degovernmentalization' typically succeeds in creating only chaos.

The major problem with 'degovernmentalization' is simple. Take the city of Petropavlovsk as an example. Petropavlovsk was built around a single industry; it is the ultimate company town. The big fishing enterprises owned and controlled literally everything, from the boats and yards where people worked, to the apartment complexes where they lived, and the stores where they shopped. Determining the worth of these assets, and how to fairly divide them, would bedevil an economist in stable economic times. But with laws changing constantly, and inflation skyrocketing, calculations done yesterday become worthless today. Worse, there are no legal precedents in Russia for breaking up industrial monopolies, so basic questions like, 'how much is a share worth?' and, 'who decides how the pie gets divided?' lead to torturous debates. The Russian government, barely controlling events, is frantically improvising policy and laws. In a recent editorial, 'Soviet Fisherman' raved that the "government is issuing blizzards of contradictory decrees, to which nobody pays attention..."

Degovernmentalization is hitting the Russian Far East fishing industry hard. The story of Petropavlovsk's second largest fishing enterprise, UPF KMPO, shows what happens when good intentions combine with poor planning. For the past year UPF KMPO, which employs nearly three thousand workers, has been locked in mortal combat with its former Executive Director, V.B. Vorobyev. At issue is Mr. Vorobyev's newly-formed, joint-stock company, Akros. When Vorobyev and his partners formed Akros, they took seventy one percent of UPF KMPO assets with them, including a hard currency bank account and three state-of-the-art, Norwegian-built factory trawlers. UPF KMPO cried foul, banned Vorobyev from any further participation in its affairs (despite forming Akros, he continued to serve as Director at UPF KMPO), and is trying to make him stand trial for violating Russian federal laws on forming private companies. The legal battle could drag on indefinitely, a fact that inspires little confidence in Akros/UPF KMPO's foreign partners, who are understandably nervous as they wait to see with which Russian entity they are to be working.

Fishing industry sources close to the incident disagree about Vorobyev's forming Akros from UPF KMPO. Some maintain that Vorobyev made a bold move for greater leeway to operate without government interference. They point out that a majority of UPF KMPO workers agreed to either join Akros, or be bought out. "UPF wasn't making any money", said one source familiar to the case. "The workers will make more money in a private company. UPF was inefficient and run down. Vorobyev will make Akros work up to international standards."

Others attribute the formation of Akros to the oldest motive in the world: greed. Everyone agrees that Akros was formed hastily, with little consideration for legal niceties. "What this really shows is that so far, it is extremely difficult to form a private company from a government monopoly", said one well-informed Russian, himself an experienced joint-venture company executive. "There was no way for Vorobyev to proceed legally and do what he wanted. He finally lost patience and just took what he wanted."

The bureaucratic chaos could not be coming at a worse time for the Russian Far East fishery. The honeymoon with the West is over, and Western businessmen are approaching Russian partners gingerly until the internal struggles subside. As long as the questions of control over resources and material assets are decided in Russian courts (unlikely anytime soon, given the state of Russian jurisprudence), doing business in the Russian Far East fishery will be very risky.

Bureaucratic infighting is only one of many serious problems confronting the Russian Far East fishery. Fisheries were delayed this year due to widespread fuel shortages. A doctor's strike in April won Russian fishermen, who routinely work up to five months without vacation, a three-month trip maximum, but the strike cost weeks of valuable fishing time. Spare parts, which are often shipped from factories in European Russia, can take up to a year to arrive in the Far East; confusion in the transportation system, as well as economic chaos, now adds more months of lag time.

Rot in the head of the Russian government has spread deep into the Russian body politic, and the rank-and-file workers in the Russian Far East fishery suffer the most. Rampant inflation, as high as thirty percent a week for some commodities

and foodstuffs, makes the ruble worthless. Barter between enterprises has all but replaced balancing the books with rubles, and with bankruptcy on the rise, it is by far the safest^{WAY} for shaky Russian enterprises to do business. ^

In June, 1992, the prevailing mood among workers in Petropavlovsk is disorientation. Nobody can believe things have gotten so bad in just a few short years. Efforts by the Russian government to make the lives of its citizens better are backfiring in the worst way. Fishermen in the Russian Far East are demoralized, and feel deep insecurity about the future.

To illustrate the confused social and economic state of Yeltsin's Russia, consider the Big Event in June in the city of Petropavlovsk-Kamchatsky. The Big Event came to Petropavlovsk on June 29, without fanfare, parades, or speeches. It was Petropavlovsk's first payday in two months, as one billion, three hundred million rubles in bundles and boxes arrived at the local airport from the mainland. Add another seven hundred million rubles, and the Russian Federation government will have paid the workers of Kamchatka for their labors during the months of April and May, 1992. Of course, many workers--mainly fishermen and sailors, the backbone of Kamchatka's economy--are at sea, and will not need to be paid until they return to port. Other fishermen came back from months of grinding work at sea to find their pay withheld indefinitely. A fortunate handful received a fraction of their wages in cash. To better understand what it means to have no cash in an economy with runaway inflation, it is worthwhile to look at post-Soviet life in Petropavlovsk.

Petropavlovsk is a port city with a population of about three hundred thousand. Stretching for twenty seven kilometers along one of the largest natural harbors in the world, Avacha Bay, Petropavlovsk has literally miles of cranes, wharves, docks, and dry docks. The inhabitants of Petropavlovsk live crowded into five story cinder block apartment buildings ('Khrushchevki, named for former Soviet leader Nikita Khrushchev), or in delapidated, army-style, wooden barracks. Despite its beautiful location on the bay, Petropavlovsk is a grimy, unattractive city. On hot summer days it chokes in a cloud of dust from black, volcanic sand. The outskirts of the city on the hills that rise above the bay are crammed with dirt streets

and row upon row of hardscrabble, one-room country shacks. The names of the city's districts--SRV, or Dry Dock, and Kopai, (the imperative Russian, "Dig!")--reflect the gritty, no-nonsense outlook of this hardworking Far Eastern city.

Inflation has slammed Petropavlovsk hard since last August. Since the city depends on the outside world for eighty percent of its food, rising transportation costs are exacerbating the soaring cost of living. Food prices have increased over twenty times during the last year.

To put the cost of living in Petropavlovsk in perspective, one American dollar is currently worth about one hundred and thirty rubles. The course for the ruble against the dollar is set twice weekly by the Export Bank of Russia. The average worker in Petropavlovsk earns about nine hundred rubles a month; a highly-qualified sailor or fisherman can earn between four and five thousand rubles a month, the same as a high government official in the Kamchatka Region Soviet of People's Deputies. These wages are extremely high by the old Soviet standards, and don't seem too bad, even given the current rate of inflation.

However, when wages are stacked against the true cost of living, the worthlessness of the ruble becomes glaringly apparent. In Petropavlovsk, a used Japanese car costs up to one hundred thousand rubles, cash. A new Russian car, like a Zhiguli, goes for up to one hundred twenty five thousand rubles. A pair of jeans costs five thousand rubles. A fur coat costs between sixteen and twenty thousand rubles. A Toshiba lap-top computer goes for around five hundred thousand rubles.

Buying a private flat in Petropavlovsk costs about three hundred thousand rubles, the same as a cottage in the country with land for growing vegetables. Most people in Petropavlovsk rent an apartment for one hundred rubles a month, but the cost is slated to increase four times in August. One hundred rubles a month rents a flat, but, as one resident put it, "(for your rubles) you don't get an apartment, but a 'zhil'yo' (a dwelling), with the emphasis on the syllable 'yo' (the first syllable of a popular Russian curse)." Many apartments are dormitories with as many as six people crammed into a single room. The rooms are infested with rats, fleas, cockroaches, and bedbugs. The residents of one building on the main street painted an appeal on their walls: "Mayday!

Mayday! Yugoslavia! (there is a contingent of Yugoslav workers in town) Our building has not been repaired for 33 years! The City Council is readying us for mass murder! We are dying!"

The dizzying price increases on almost everything means that there is physically not enough money for everybody, despite the fact that the Russian Treasury has been printing money non-stop for almost a year. Local banks in Petropavlovsk ran out of money three days after the Big Event. An article in the local newspaper 'Vesti' (The News) titled "The Old Market at Noon" asked shoppers how much cash they had in their wallets. Here are some of the answers:

"I haven't seen money in two months. I have no idea how long I will have to wait for my pay."

"Let's see...(counts) thirty six rubles! For a family of three. We're living well, aren't we? I got my last pay in March. Not so long ago, an acquaintance came up to me and said, 'Loan me three thousand, how about it?' He made our day...We've been getting bread on credit for a long time. Thank God, there's still some corruption around here, you can get bribes and live on that (laughs)."

"Better if you don't ask...I've been bringing home one hundred and fifty rubles a month. We got only ten percent of our April wages. Everyone had tears in their eyes..."

At the stores, and at the markets, the constant price increases make for huge lines. Although one hundred, five hundred, and one thousand ruble notes are in circulation, it is not uncommon to see a customer pay for a five or six hundred ruble purchase with a hodgepodge of three, five, and ten ruble notes. The result is frayed tempers and simmering frustration as cashiers laboriously count through giant stacks of small, dirty bills. Kopeks have become nearly worthless; if you don't have exact change, the total is usually rounded up to the next highest ruble amount, which is hardly popular with anxious consumers economizing every last copper kopek.

To make up for the physical lack of cash, the Kamchatka Regional Administration has issued a decree allowing for the use of personal checks. It has also decreed that shops that will not accept checks as payment for goods are subject to


closure. The decree will be strictly enforced, local officials promise.

Unfortunately, checks and decrees cannot solve Petropavlovsk's economic woes. Most shops and stores still use the abacus and accounting ledger for their bookkeeping, and have no experience with checks or Western-style banking. They are completely unprepared for the leap from the pencil to the computer, and there aren't any computers, anyway. In late June, the Federation of Kamchatka Professional Unions published an appeal to the Chief Administrator of the Kamchatka Administration, Vladimir Birukov. The appeal seriously criticized the fledgling checking system. "Checks and checkbooks are being issued only at the Central Savings Bank, but there has been no corresponding increase of staff to handle the increased work load. As a result, there are huge lines, and people are forced to wait more than five hours." The Central Savings Bank couldn't print enough blank checks for everyone who wanted them, so it issued cashier's checks in amounts up to ten thousand rubles. However, since stores in Petropavlovsk generally refuse to hand out more than one hundred rubles in change, consumers are forced to buy unwanted items to make up the difference. The checks are useless for buying small items. Finally, checks issued in Petropavlovsk are not accepted anywhere else, either in Russia or in the former Soviet republics, so travel away from Kamchatka has become extremely difficult. The new checking system, concludes the appeal, "has made life worse, not better."

Fishermen in the Russian Far East are resigned to the fact that converting Russia into a Western country will not happen for generations. At the same time, they express an eagerness to endure the present hard times in hopes of making life better, or at least less bewildering, in the near future. With typical black humor, Russians love to say, "Nothing is more constant than temporary troubles." Western businessmen considering investing in the Russian Far East fishery would do well to consider the temporary troubles dogging Russia along the difficult road to a new economic order.

Best wishes,

Peter H. Christiansen



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